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SUBJECT: NIGERIA: CBN RELEASES ITS SECOND BANK AUDIT RESULTS

REF: A. LAGOS 359
¶B. ABUJA 1497
¶C. ABUJA 1290
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¶1. (U) SUMMARY. The Central Bank of Nigeria's second and final bank audit report found five banks to be undercapitalized and/or suffering from illiquidity. The CBN replaced three managing directors and injected 200 billion naira ($1.3 billion) into the affected five banks. The Nigeria Stock Exchange showed a slight rebound in the first day of trading after the CBN actions and suspended the trading of shares of two banks for one week. The nine remaining banks were given a clean bill of health. END SUMMARY.

## CBN Sacks Additional Bank Managers

¶2. (U) The Central Bank of Nigeria (CBN) released its second and final bank audit report on Friday October 2, finding five of the 14 audited banks to be undercapitalized and/or suffering from illiquidity. The five affected banks are Spring Bank, PHB Bank, Equatorial Trust Bank, Wema Bank, and Unity Bank. The CBN determined Spring Bank, PHB Bank, and Equatorial Trust Bank to be in "grave problems" and fired their managing directors and appointed new ones. Wema Bank was found to suffer from undercapitalization and illiquidity, while Unity Bank was found to be undercapitalized. The problems of the last two banks were not found to be as egregious as the first three; hence their executives avoided the CBN's axe. The management of Wema bank had just been replaced in June 2009 and the CBN did not find it appropriate to hold the current management responsible for the bank's pre-existing problems. Similarly, Unity Bank did not suffer from illiquidity and only needed to increase its capital. All five affected banks will be required to increase their capital by the end of June 2010. Access Bank, Citibank Nigeria, Ecobank Nigeria, Fidelity Bank, First City Monument Bank, Sky Bank, Stanbic IBTC Bank, Standard Chartered Bank, and Zenith Bank were deemed healthy and cleared by the CBN.

## GON Injects 200 Billion Naira into Five Banks

¶3. (U) The CBN injected 200 billion naira ($1.3 billion) into the five affected banks, as opposed to the 420 billion naira ($2.6 billion) it injected in the five banks it rescued in the first bank

audit on August 14 that involved 10 banks. The 200 billion naira was injected in the form of long-term loans to provide liquidity for the banks' operations. The 200 billion naira is less than half the amount of the first audit because most of the affected banks in the second audit are smaller and the problems found were apparently less serious. The 200 billion naira is also more that the 150 billion naira that had been mentioned in the press prior to the CBN's actions on October 2.

¶4. (U) The Nigerian Stock Exchange (NSE) showed a slight rebound on Monday, October 5, the first day of trading following the CBN's actions. The NSE also suspended trading for one week in the shares of Spring Bank and PHB Bank to protect investors from possible capital erosion. (Note: Equatorial Trust Bank is a privately held company not traded on the NSE. End Note).

¶5. (U) The naira has appreciated since the CBN's actions, in contrast
Q5. (U) The naira has appreciated since the CBN's actions, in contrast
to the depreciation following the release of the results of the first bank audit on August 14. The different reaction has been attributed to the fact that the market is no longer concerned about the stability of the overall banking sector, as was the case following the first bank audit. The second bank audit also takes place in the context of higher oil prices, increased oil production as a result of the government's Delta amnesty program, and a related increase in the supply of foreign exchange.

GON Not Nationalizing Banks
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¶6. (U) CBN Governor Lamido Sanusi told reporters that the GON was not nationalizing the banks and will return them to private investors or liquidate them if they are not systemically important to the banking sector and there are no buyers. He said the government might also convert its stakes into equity until investors are found for the ten banks in which it has now pumped a total of 620 billion naira ($3.9



billion). Sanusi said that Oceanic Bank, Union Bank, PHB Bank, and Intercontinental Bank have systemic importance to the economy, as each controls five percent of the banking market. The CBN indicated that an asset management company (or "bad bank") might be established to manage the liquidation process and the GON's interests in the rescued banks.

The President Ordered Less Fanfare This Time Around
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¶7. (SBU) President Yar'Adua instructed the Minster of Finance, the Presidential Chief Economic Advisor, and the Director General of the State Security Service to ensure that the CBN announced its second bank audit report and actions without fanfare and according to the law, according to a weekend press report. The CBN attracted criticism for announcing its first bank audit report and the firing of the managing and executive directors of affected banks in a press conference. Some of the fired bank executives and debtors have filed charges against the CBN and the CBN Governor for violation of the provisions of the Banks and Financial Institutions Act, including the denial of due process. Critics have also blamed the CBN Governor for increasing uncertainty via the manner with which he implemented actions following the first bank audit.

No Hidden Northern Agenda
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¶8. (SBU) Some observers have accused the CBN Governor of pursuing a hidden northern agenda designed to take banks out of the hands of southerners and put them in the control of northerners. However, analysts dismiss this charge by pointing out that all 24 of the country's banks were audited, that some of the most wealthy and politically connected figures from all parts of the country were on the list of defaulters published by the CBN earlier, and that the PHB Bank was not spared despite the fact that the president's family has interest in the bank. The Unity Bank, which largely does business with 19 northern states, was also not spared from being required to increase its capital by the end of June 2010.

## Reform May Lead to Consolidation and Foreign Investment

¶9. (U) The GON has endorsed a three-step strategy to strengthen the banking sector and restore confidence, according to Sanusi. These steps include: the recapitalization of weakened banks through capital infusion by private investors, bank mergers; and, and the takeover of affected banks by core foreign investors. He said the Enterprise Promotion Act allows complete foreign ownership of banks, citing the case of Citibank Nigeria as an example. Sanusi predicted that the strategy may eventually reduce the number of banks to from the current 24 to around 15.

¶10. (SBU) COMMENT. Market and industry observers are relieved that the CNB bank audit is over and are pleased that the CBN has taken tough measures to clean up and strengthen the banking sector. Nevertheless, there are concerns about the higher costs going forward that are associated with the necessary provision for large amounts of bad debt. Ultimately, the success of the CBN's actions will be measured by the growth of bank credit and the stability of interest Qmeasured by the growth of bank credit and the stability of interest rates following the lifting of the CBN guarantee on interbank deposits at the end of March 2010.

¶11. (U) This cable has been coordinated with ConGen Lagos.

MCCULLOUGH